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8 **BEFORE THE ARIZONA CORPORATION COMMISSION**

Arizona Corporation Commission

DOCKETED

APR 08 2015

10 COMMISSIONERS

11 SUSAN BITTER SMITH, Chairman  
12 BOB STUMP  
13 BOB BURNS  
14 DOUG LITTLE  
15 TOM FORESE

DOCKETED BY

PC

16 IN THE MATTER OF RESOURCE  
17 PLANNING AND PROCUREMENT.

DOCKET NO. E-00000V-13-0070

**ARIZONA PUBLIC SERVICE  
COMPANY'S COMMENTS TO  
STAFF'S MARCH 11, 2015  
MEMORANDUM AND  
PROPOSED ORDER**

-and-

**RESPONSE TO CHAIRMAN  
BITTER SMITH'S MARCH 24,  
2015 LETTER**

22 APS submits its comments to Staff's March 11, 2015 Memorandum and  
23 Proposed Order, and responds to the Chairman's March 24, 2015 letter in this docket.

24 APS appreciates the extensive work undertaken by Staff and its Consultants in  
25 reviewing APS's 2014 Integrated Resource Plan (IRP), as well as all of the work  
26 performed by Staff, Stakeholders and the Commission regarding the recent workshops in  
27 this docket and Docket No. E-00000J-13-0375 (commonly referred to as the  
28 "Technology Docket"). APS has previously filed comments here and in the Technology

1 Docket that express its willingness to work with the Commission, Staff and Stakeholders  
2 to improve the resource planning process for APS and the State of Arizona. APS  
3 embraces concepts such as improved planning transparency, better coordination between  
4 the IRP and other utility planning and regulatory requirements (e.g., the Biennial  
5 Transmission Plan, Demand Side Management/Energy Efficiency Plans, etc.), improved  
6 and earlier opportunities for Commission and Stakeholder input into future IRPs, among  
7 other concepts. APS looks forward to a continued dialogue on how these concepts  
8 might be applied on a going forward basis.

9 **I. APS's Response to Staff's General Recommendations and Proposed Order.**

10 Staff concluded that APS's IRP is reasonable, in the public interest, and complies  
11 with the requirements of the Commission's IRP Rules. *See* A.A.C. R14-2-701 *et seq.*  
12 Staff recommended acknowledgment of APS's IRP and recommended approval of the  
13 retirement of Cholla Unit 2 as requested. APS concurs with and supports these  
14 recommendations.

15 **A. The Ocotillo Modernization Project (OMP)**

16 APS also concurs with Staff's conclusion that the OMP provides a unique  
17 opportunity to add capacity at a strategic location in the Phoenix load pocket. The  
18 availability of water, existing natural gas lines, and transmission infrastructure, among  
19 other things, strongly support both the modernization and expansion plans put forth by  
20 APS during the siting process. That said, APS agreed with Staff's suggestion that an  
21 RFP for the 290 MW of additional capacity planned in the OMP may provide useful  
22 information. Staff states that APS has volunteered to conduct an "all-resources RFP"  
23 prior to installing 290 MW of additional capacity as part of the OMP. (*See* Staff  
24 Memorandum at 4.) It is true that APS has volunteered to conduct an RFP<sup>1</sup> before  
25 initiating construction on the additional 290 MW of capacity to be added at the Ocotillo  
26 site. However, the RFP conducted with regard to the OMP is for peaking capacity,

27 <sup>1</sup> Confidential responses to the RFP were due on March 18, 2015 and APS is currently analyzing  
28 the bids received.

1 rather than an all-resource RFP. APS will, however, be conducting an all-source RFP  
2 by the end of 2016 pursuant to an agreement with Residential Utility Customer Office  
3 (RUCO). The results of that all-source RFP will be considered in future IRPs and will  
4 inform future procurement decisions.

5 **B. APS Load Forecasts**

6 Staff noted that APS's load forecasts "appear to be optimistic" and recommended  
7 that APS re-examine its forecasting techniques before filing its 2016 IRP. (*See* Staff  
8 Memorandum at 4.) For the reasons explained in APS's December 5, 2014 comments,  
9 APS disagrees with Staff's assessment. Notwithstanding, APS is constantly monitoring  
10 the inputs it uses to develop its load forecast and stays abreast of current industry  
11 practices in forecasting. APS will continue to re-examine its data and techniques on a  
12 going forward basis consistent with Staff's recommendation.

13 **C. APS Continues Efforts to Explore Joining an Energy Imbalance Market.**

14 APS has completed its assessment of the opportunities and challenges involved  
15 with joining the California Independent System Operator (CAISO) Energy Imbalance  
16 Market (EIM). APS will file additional information regarding this assessment with the  
17 Commission in the near future.

18 **II. APS's Response to Staff's Recommendations to Improve the IRP Process.**

19 **A. APS Supports Pre-Filing Workshops.**

20 APS support pre-filing stakeholder workshops, and in fact, currently incorporates  
21 stakeholder workshops into its process and can add an additional "pre-filing"  
22 stakeholder workshop if the Commission desires. Pre-filing workshops provide the  
23 Commission, as well as stakeholders, the opportunity to share their views on key  
24 assumptions, potential portfolios and costs. As discussed in APS's February 6, 2015  
25 Comments filed in response to Commissioner Bob Burns' January 27, 2015 letter in the  
26 Technology Docket, APS proposed a similar workshop early in the IRP development  
27 process that could allow stakeholders, Commission Staff and Consultants an opportunity  
28 to provide input into the IRP development process on matters such as utility system

1 needs, future generation needs, potential planning scenarios, load growth and forecasts.  
2 These early workshops provide APS with additional input for consideration as it  
3 develops the best plan for reliably meeting the future electric needs of its customers in a  
4 cost effective manner, while balancing the demands of state and federal regulatory  
5 requirements, such as the renewable energy and energy efficiency standards, and  
6 environmental mandates.

7 **B. APS Does Not Support Changing the Three-Year Action Plan Process.**

8 APS supports an IRP process that provides Commissioners with the opportunity  
9 to engage in the process and provide Load Serving Entities (LSEs) with policy direction  
10 regarding future resource plans. This guidance can be used to inform LSEs decisions on  
11 future procurement and resource issues. Specific approval of LSEs three-year action  
12 plans is not necessary for the Commission to provide direction and guidance to LSEs.  
13 The IRP rules already provide a mechanism for utilities to seek specific approval of  
14 resource planning actions (*Id.* at R14-2-704(E)), as APS did regarding its plan to close  
15 Cholla Unit 2. Adding additional requirements and specific approval of LSEs action  
16 plans would be administratively burdensome, could cause delays in providing much  
17 needed electric resources to serve customer's energy needs, and would not provide  
18 better information or planning outcomes than the current processes. As outlined in  
19 APS's February 6, 2015 comments responding to Commissioner Burns' January 27,  
20 2015 letter, there are other ways to increase transparency and Commission involvement  
21 in LSEs planning processes, such as the pre-filing workshops previously discussed.

22 APS also has concerns regarding Staff's recommendation that "all resource  
23 additions" must first appear in a three-year action plan. It is unclear what types of  
24 resource additions Staff is referring to and APS has concerns regarding the timing and  
25 confidentiality of projects and plans. Additionally, and assuming that any jurisdictional  
26 and legislative issues could be addressed, APS does not support requiring utilities to  
27 include all future generation projects in the action plan and making it a prerequisite to  
28 filing an application for a Certificate of Environmental Compatibility, as an example.

1           **C.     Interpretation of the Procurement Rules - A.A.C. R14-2-705(B)**

2           By its terms, A.A.C. R14-2-705(B) does not apply to self-built generation.  
3           Section 705(b) applies only to the “wholesale acquisition of energy and capacity.” Self-  
4           building a generation unit is not the wholesale acquisition of energy and capacity.  
5           Indeed, the Commission has previously ruled that APS’s use of a developer to build  
6           generation at its Yuma Power Plant was not a wholesale market acquisition under the  
7           rule. *See In re the Application of APS for Authorization to Acquire Power Plant*,  
8           Comm’n Dec. No. 69400 (Mar. 30, 2007) (noting that a developer-build proposal was  
9           not a wholesale market resource). In addition, by its terms the rule only applies to  
10          wholesale transactions. APS primarily generates electricity in order to provide reliable  
11          and economic electric service to retail customers in its service territory and conducts off-  
12          system sales of excess generation to balance its system and maximize benefits for  
13          ratepayers. Thus, OMP does not fall within the definition of a wholesale acquisition of  
14          energy and capacity.

15           **D.     New Technologies and Addressing Risk and Gas Price Volatility**

16          Staff has suggested that LSEs could be directed to discuss the status, costs and  
17          benefits of new technologies in future IRPs and three-year action plans. APS agrees that  
18          this is useful information and included a discussion and analysis of new technologies in  
19          its 2014 IRP and three-year action plan. (*See* 2014 IRP at 22-25, 80.)

20          Staff also has recommended that LSEs could be directed to place additional  
21          emphasis on future risks and costs, in particular those associated with natural gas price  
22          volatility and load forecasts. APS currently conducts analysis that takes into  
23          consideration fluctuations in future natural gas prices and changes to future load. (*See*  
24          2014 IRP at 58-59, 124-25, 138.) APS is willing to consider additional analyses and  
25          sensitivity testing to further consider the risks presented by these two key issues that  
26          affect its planning efforts.

1     **III. CONCLUSION**

2             Based on the foregoing and its previously filed comments in this docket and the  
3     Technology Docket, APS requests that the Commission not adopt Staff's proposed  
4     suggestions regarding the three-year action plan and the procurement rules, and requests  
5     that the Commission acknowledge its IRP and approve the retirement of Cholla Unit 2  
6     consistent with the Staff Report and Recommended Order.

7  
8             RESPECTFULLY SUBMITTED this 8th day of April 2015.

9  
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14     ORIGINAL and thirteen (13) copies  
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16     April 2015, with:

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